University of Mississippi
eGrove

Haskins and Sells Publications Deloitte Collection

1923

Unemotional balance sheets

Anonymous

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation
Haskins & Sells Bulletin, Vol. 06, no. 06 (1923 June), p. 41-42

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

ATLANTA
BALTIMORE
BOSTON
BUFFALO
CHICAGO
CINCINNATI
CLEVELAND
DALLAS
DENVER
DETROIT
KANSAS CITY
LOS ANGELES
MINNEAPOLIS
NEWARK
NEW ORLEANS

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

BULLETIN

EXECUTIVE OFFICES
HASKINS & SELLS BUILDING
37 WEST 39TH ST., NEW YORK

NEW YORK
PHILADELPHIA
PITTSBURGH
PORTLAND
SAINT LOUIS
SALT LAKE CITY
SAN FRANCISCO
SEATTLE
TULSA
WATERTOWN

HAVANA
LONDON
PARIS
SHANGHAI

VOL. VI — NEW YORK, JUNE, 1923 — No. 6

Unemotional Balance Sheets

"READ 'EM and weep" may apply as well to some balance sheets as to the "galloping dominoes" which play such an important part in the recreation of a certain leisure class of dusky hue.

Consider the poor unfortunate who has taken his savings to buy stock of some new corporation and looks on his purchase as an investment. Statements from time to time are favorable—on their face. Dividends are not immediately forthcoming, but then any new concern requires time in which to get started. Sweet phrases about good intentions keep things going for a while. Then comes the crash. Obviously the statements must have been "window dressed," if they were not positively untruthful.

The line of demarcation between statements which are made misleading and those which are untruthful is difficult to fix. Who can say that participating contracts may not be wholly warranted as an asset in the balance sheet of a motor car company? It is conceivable that they might be. Who can question the right to show property at the estimated market value? Right, in this sense, is only limited by law. Or who can object if some line of reasoning makes it seem to those in whose judgment the matter rests proper to take advantage of some fine shade of distinction in accounting theory? Either of two ways of treating a matter may appear right, depending on how one looks at it.

All these things are dictated more or less by the emotions; by the desire to make a favorable showing. Force of habit sometimes carries this idea to the extent of "rigging" statements when there is really no need for it. Past treatment of some item may interfere with a change, but more frequently it is some erroneous notion as to the psychological effect on readers of telling the straight story.

The unemotional balance sheet sets forth the cold, unvarnished facts, so that he who runs may read to the limit either of his own intelligence or the intelligence of some expert adviser. It is a balance sheet in which there are no questionable assets other than those which have been conservatively valued. Full acknowledgment and statement has been made of all known liabilities and, as well, any contingent ones which may be in the offing. There is proper classification. The integrity of groupings has been preserved and all relationships made clear. Full description and truthful titles leave no question as to what they represent. And last, but not least, the surplus is differentiated as to its origin so as to show particularly that which has arisen from revaluation. Less weeping, in general, would result from more unemotional balance sheets.

This Business of Business Cycles

JEVONS, an eminent English economist who lived from 1835 to 1882, is probably best known to the present generation, in this country, at least, as the propounder of the theory of sun spots. Jevons' general reasoning tended strongly to bring economics into relation with physical science, and he advanced the theory that there is a connection between commercial crises and sun spots. The reasoning was somewhat involved and had to do with the diminution of the heat from the sun and its effect on crops. In short, given sun spots of sufficient size, Jevons contended that panics are bound to ensue.

Looking back over the history of the United States for the past one hundred years, there are a number of crises which stand out. While they are sometimes referred to as panics it does not seem necessary to differentiate between panics and crises, if, indeed, there is any substantial difference. The outstanding periods of depression began, respectively, in 1837, 1873, 1893, 1907, and 1921. They are of some interest in examining the question of business cycles, because, with one exception, they have well defined points in common, and it is not unlikely, in the case of the exception, that sufficient investigation would reveal the presence of causes which are common to the other instances. Some of the panics synchronize with the occurrence of sun spots and crop failures; others show no relation to these phenomena.

The panic of 1837, as it is usually called, followed a marked period of territorial and business expansion, with excessive extension of credit and speculation in public lands. The panic was precipitated by the suspension of specie payments, resulting in great financial disturbance, and was accompanied by crop failures. There is no evidence available apparently to show that sun spots appeared at that time.

In 1873, due to over-expansion in railway construction, increase in the demand for iron, over-expansion in the iron industry, industrial expansion generally, inflation of prices, came another so-called panic. This depression is usually attributed to the fact that railroad development and construction, particularly through the west, was too far ahead of the transportation needs of the country, and as a result the roads with new extensions were unable to earn sufficient to meet the interest on the investment. There were no crop failures. There were no sun spots, but the depression was deep and far-reaching.

Just twenty years later another panic occurred which lacked, generally speaking, the ear-marks of its predecessors, with respect to over-expansion and speculation. The panic of 1893 is traceable more clearly to lack of confidence in the ability or intention of the federal government to redeem government obligations in gold and maintain a parity between gold and silver. In this year there were both sun spots and crop failures.

The next panic occurred in 1907, and